A. OPEN FIELD

B. CONSTRUCTION SITE

C. NATURAL GAS RESERVE

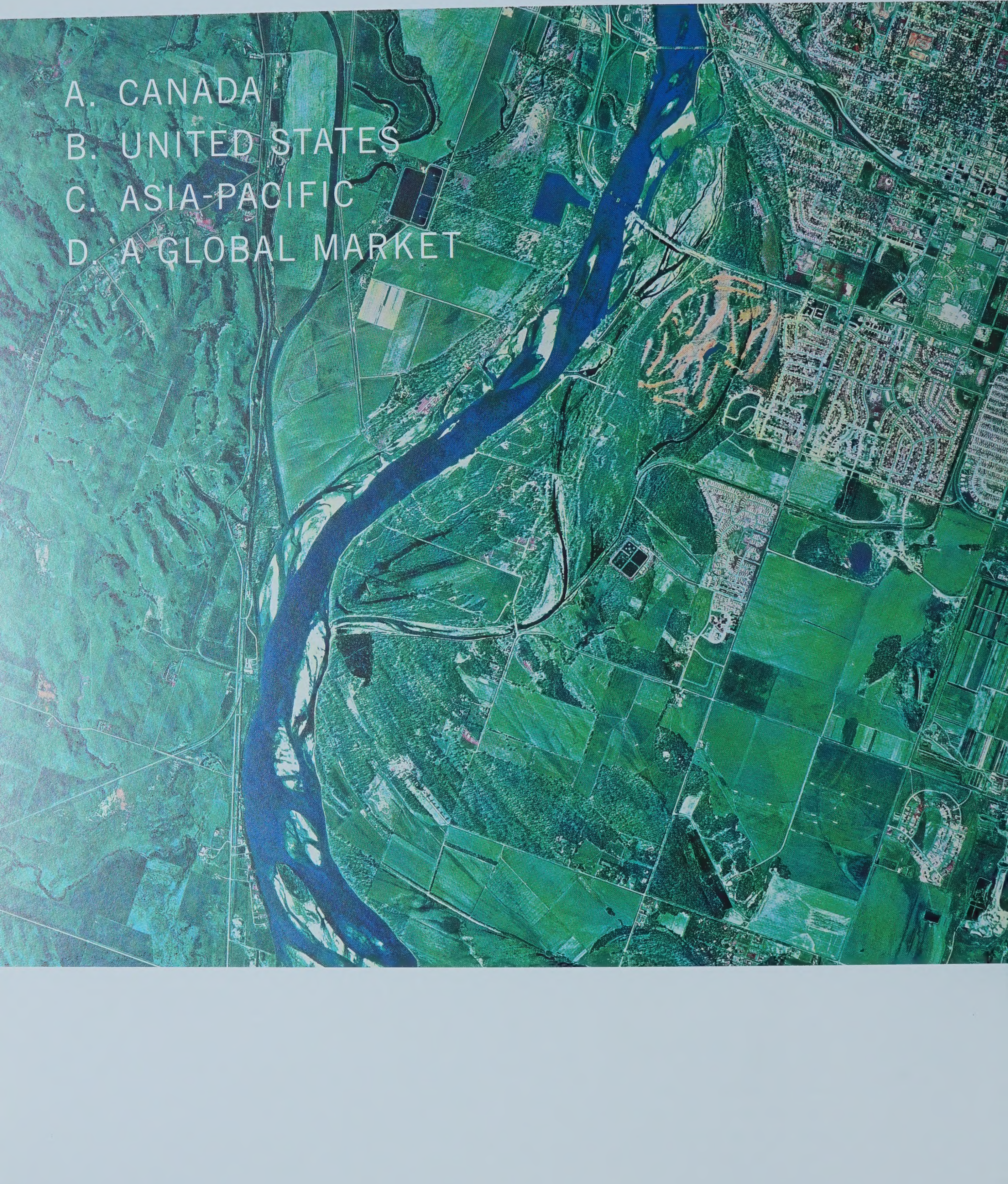
D. A PERSPECTIVE

TOROMONT

TOROMONT INDUSTRIES LTD. ANNUAL REPORT 2002


WHAT DOES
OPPORTUNITY
LOOK LIKE?

From our perspective, opportunity looks very much like Toromont today. We see tremendous potential to build shareholder value by expanding our markets, increasing market share, broadening product offerings and capabilities and capturing more product support business. We see opportunity everywhere we look.

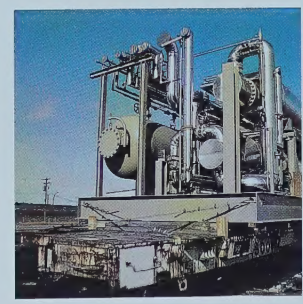

A. CANADA
B. UNITED STATES
C. ASIA-PACIFIC
D. A GLOBAL MARKET

Expanding our markets

Toromont serves a broad range of markets within which there is abundant potential to expand. Sizeable opportunities exist to achieve further profitable growth through increased market coverage, market share gains and geographic expansion.

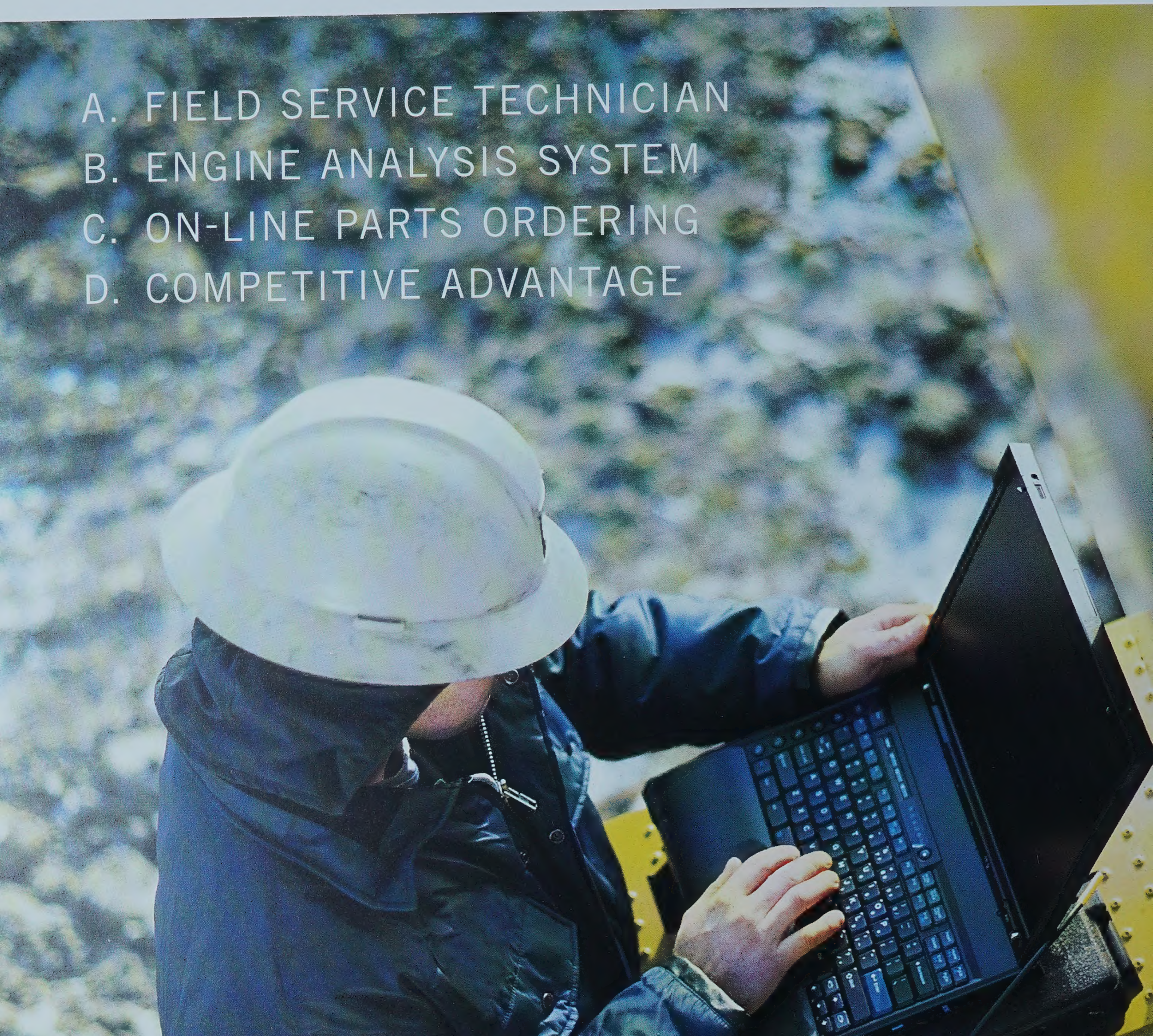
Some of our strongest opportunities exist in global markets for specialized compression equipment. Today, we have plans to build on our sales momentum. Our plans include maximizing contributions from our 39 facilities in the U.S., U.K. and Canada, increasing sales coverage in attractive markets such as Europe, Russia and Southeast Asia, and expanding our markets through our newly acquired Energy Industries operations. A new Toromont Process Systems manufacturing plant opened at the beginning of 2003 to provide ample room for expansion.

We have substantial 'in-market' growth potential as the Caterpillar dealer in Ontario, Manitoba, Nunavut and most of Newfoundland and Labrador. Driving this potential are opportunities to sell, lease, rent and maintain new and used heavy equipment, compact equipment and a comprehensive line of power systems to a diverse group of customers. To secure future opportunities, we are enhancing our sales coverage, adding competitive products (such as the Perkins engine distribution rights in Ontario which will be acquired in the first quarter of 2003), and implementing our market-leading electronic business systems.



4 Billion dollars: the estimated size of global markets for compression in which Toromont competes.

1,000+ New customer accounts opened by Toromont in 2002.


A. FIELD SERVICE TECHNICIAN
B. ENGINE ANALYSIS SYSTEM
C. ON-LINE PARTS ORDERING
D. COMPETITIVE ADVANTAGE

Strengthening product support

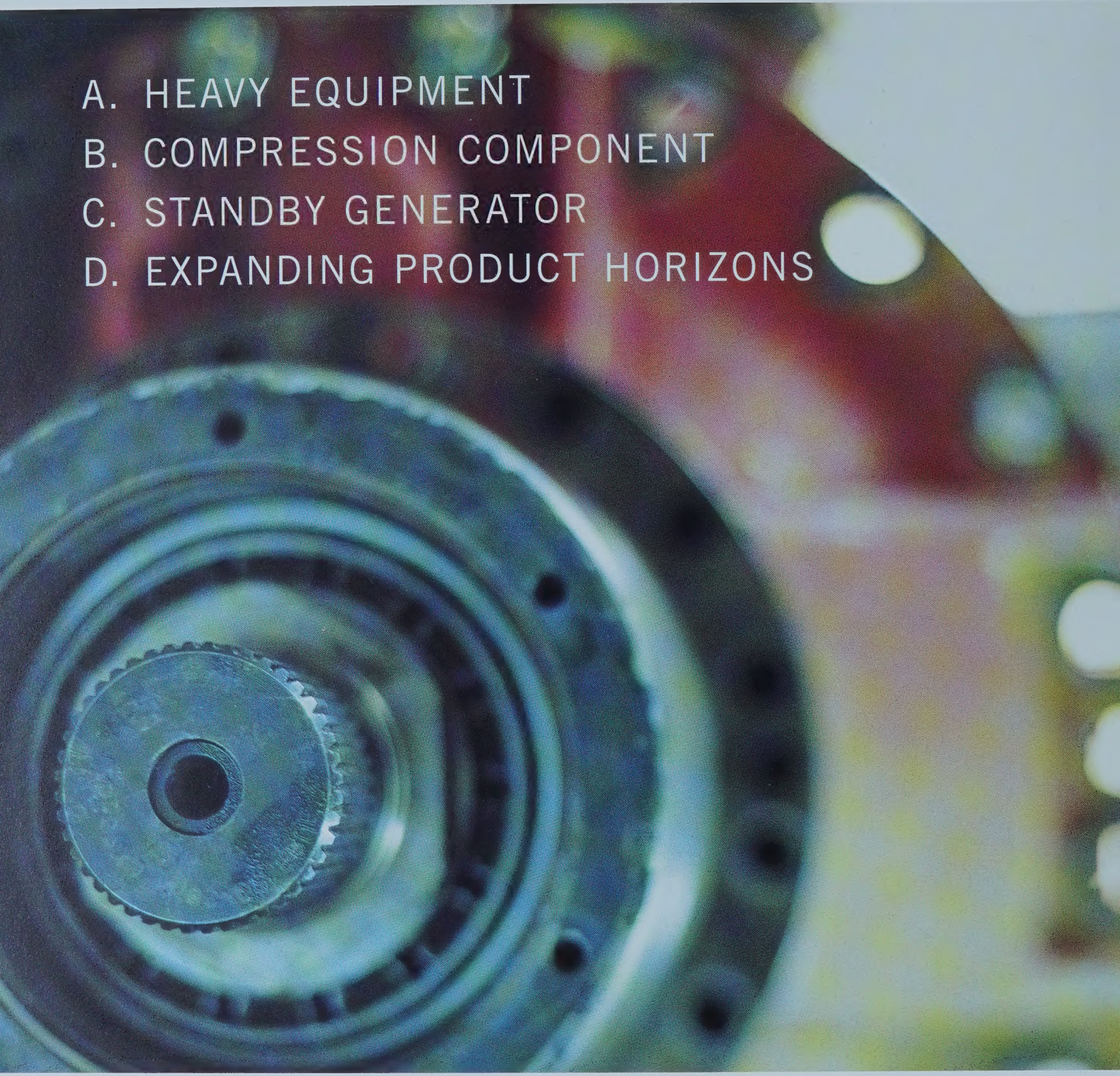
Revenue from parts and service activities expands with our installed base, which continues to build across Toromont's markets. Looking ahead, we see product support providing us with a strong and growing annuity in years to come as we intensify our focus across a wider spectrum of markets.

We are poised for significant long-term growth in maintenance revenues within our Caterpillar dealership, as we assist our customers in caring for their increasingly sophisticated equipment. We are actively promoting our extensive field service capabilities and Customer Service Agreements across our recently expanded territories. We are also developing parts counter programs and creating more electronic portals – such as the Internet Parts Store – that allow customers to order parts and components online.

To add profitable revenue and better serve customers in industrial and recreational markets, our CIMCO operations recently began the rollout of a new business enterprise system. They also opened three new sales and service depots in Phoenix, Arizona, Gaspé, Quebec and Kelowna, British Columbia. As a result of operating the industry's most extensive 7/24 customer support network – including a national parts centre – and having the industry's largest installed base, CIMCO's product support revenues are poised to grow well into the future.

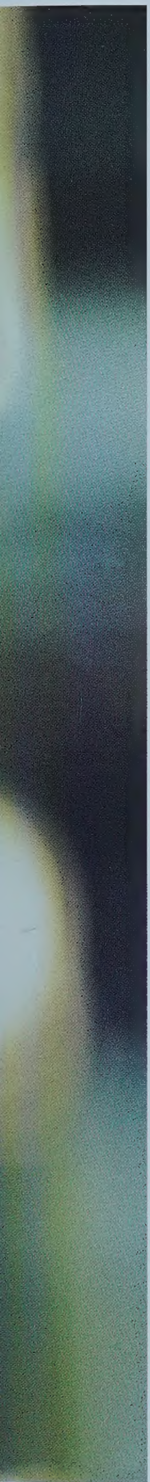
83,000 Oil, hydraulic and brake fluid samples Toromont CAT analyzed in 2002.

6.4 Million kilometres logged by CIMCO's field service technicians in 2002.


A. HEAVY EQUIPMENT
B. COMPRESSION COMPONENT
C. STANDBY GENERATOR
D. EXPANDING PRODUCT HORIZONS

Broadening our product offerings and capabilities

Throughout both the Equipment and Compression groups, Toromont delivers a wide variety of specialized capital equipment to a diverse range of customers and industries. By selectively extending both our product lines and capabilities, Toromont will expand its customer portfolio and add to its installed base of equipment.

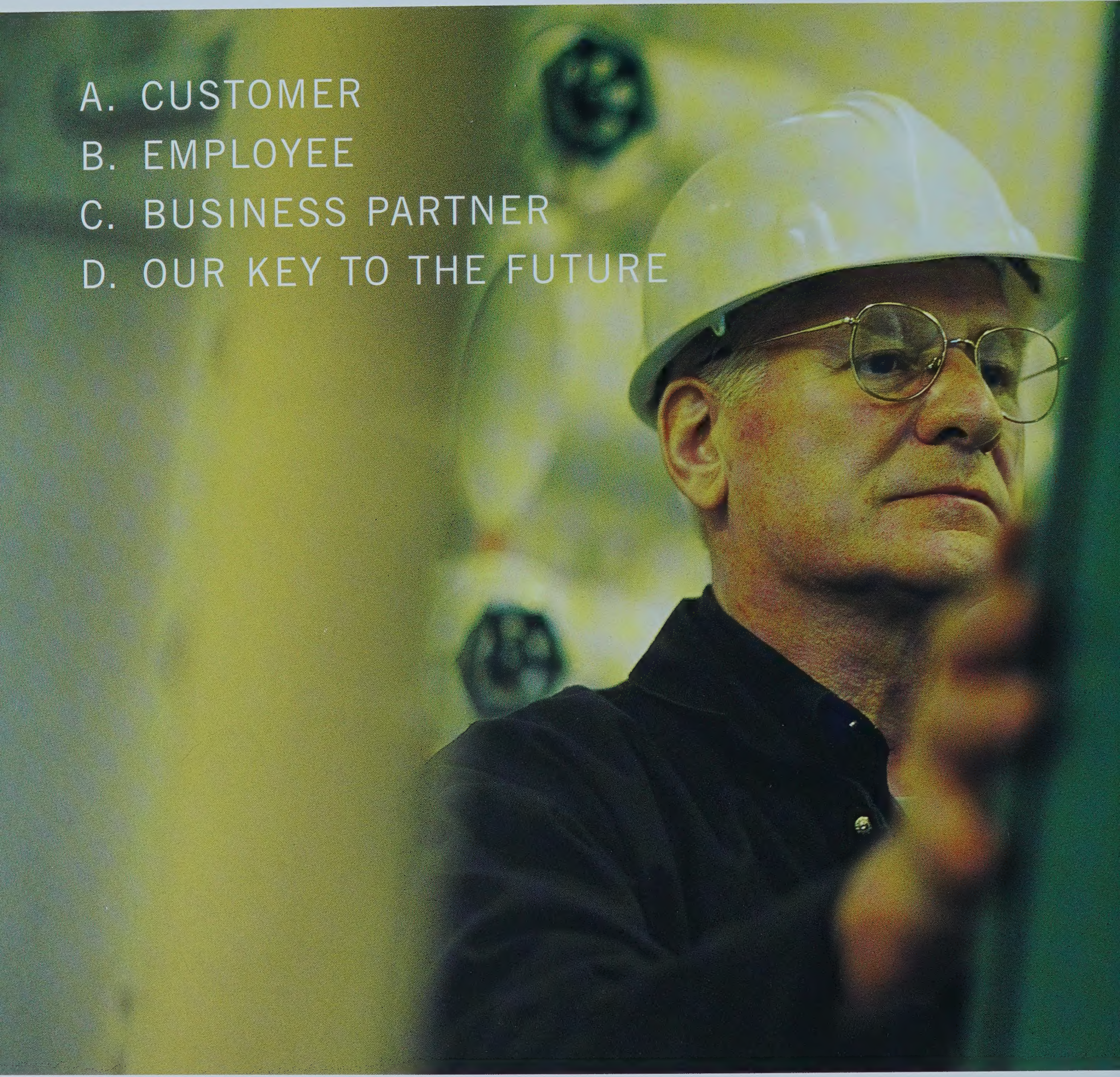


Battlefield Equipment Rentals, with its extensive network of stores catering to the needs of large, medium and small contractors, is continually adding new products, increasingly making it a more comprehensive supplier of equipment in its territories. These new products, together with our broad coverage and innovative use of the Internet to optimize equipment usage and reduce costs for customers, complement our industry leadership position.

Toromont Process Systems offers a broad range of reciprocating, rotary screw and centrifugal compressor-based systems. Through product development, applications engineering and acquisitions – including the addition of Energy Industries in early 2003 – we have significantly boosted our growth potential. To further maximize opportunity, we are increasing our focus on providing turn-key, outsourced building services, leveraging our engineering capabilities and ensuring customers get a purpose-built facility.

3,600 Active customers who relied on Battlefield Equipment in 2002.

1,750 Largest horsepower engine incorporated in packages delivered by Toromont Process Systems in 2002.


A. CUSTOMER
B. EMPLOYEE
C. BUSINESS PARTNER
D. OUR KEY TO THE FUTURE

Investing in our resources

Toromont's success in building shareholder value is underpinned by the experience and knowledge base resident within our workforce. By investing in the capabilities and productivity of each employee, we can better serve those that count on us to deliver growth in the future: shareholders, customers, business partners and our employees.

Our ability to pursue the growth opportunities before us is dependent, in large part, on our continued success in recruiting, training, motivating and retaining exceptional employees. We support many apprenticeships and trade schools throughout our business units. Through performance-based compensation and a strong share-ownership culture, we have an excellent track record of retaining highly productive staff.

Our technology infrastructure is a competitive differentiator that builds close customer relationships and forms a conduit to profitable growth. We also invest in technology to improve decision-making by employees, to help streamline their work and to eliminate non-value added services. Over the past five years, we have invested substantial funds in technology and intend to continue leveraging these investments in the years to come as we pursue superior shareholder returns.

45,000 Hours of formalized training provided to Toromont technicians in 2002.

37 Million dollars invested in information technology over the past five years.

FELLOW SHAREHOLDERS:

At Toromont we have a history of excellent performance and a successful track record turning opportunities into tangible results. **In 2002, this trend continued.** Revenues surpassed the billion-dollar milestone for the first time, up 19% from the previous year. Earnings per share of $1.29 were 18% higher than 2001, excluding investment gains. Dividends were increased for the thirteenth consecutive year, marking our 34th year of continuous dividend payments. In spite of difficult economic conditions, Toromont performed well in 2002, again demonstrating what can be achieved when an entire company remains focused on current market realities, without losing sight of its long-term strategy.

Equipment Group

- Toromont CAT achieved strong results by posting significant market share gains in new equipment.
- Power Systems achieved excellent growth, supported by activities in the special events, marine, commercial and municipal sectors.
- In the absence of a stable regulatory environment, developments in the Ontario energy sector were disappointing. We decided to defer investments in new power generation projects. Given expected shortfalls in the supply of energy, we continue to believe that there will be opportunities in energy markets. In the interim, the challenge will be to optimize the returns from our existing energy assets.
- Rental operations acquired in Manitoba during 2001 exceeded revenue and profit targets, while competitive markets in Ontario held sales flat at Battlefield. Customer relationships were enhanced through significant e-commerce initiatives.
- In its first full year under Toromont's ownership, Ontario Sterling became the number one Sterling Truck dealership in Canada based on both new equipment and parts sales.

Compression Group

- The largest contributor to our Compression Group – and the fastest-growing Toromont division – was Toromont Process Systems. Despite a difficult natural gas business environment, record revenues were achieved as excellent progress was made in both contract and product support sales. A new 142,000 square foot manufacturing facility was completed in Calgary. With sustained focus on engineering and manufacturing, in addition to greater product standardization, this design-built facility will directionally help to drive efficiencies and support our long-term growth plans.
- In its eighty-ninth year of operations, CIMCO continued to be the supplier of choice for national and international food processors and cold storage companies. CIMCO (the NHL's approved supplier) completed high profile recreational projects such as: a Training Center (shared by the New York Rangers, New York Nicks and WBA); the Houston Rocket's Houston Arena; California State University; the Hershey Centre in Mississauga and John Labatt Centre in London, Ontario.
- Aero Tech, a provider of precision sheet metal fabrication, continued to make a significant contribution to results. In 2002, Aero Tech doubled its revenue from customers in the water filtration market and increased sales to the gaming industry and medical markets.

Opportunities

We have a number of opportunities that can reasonably be expected to contribute significant profitable growth over the next five years. These opportunities fit into several categories.

Expanding our markets. By expanding our reach in the industries we currently serve, and by continuing to increase our market share through enhanced sales coverage, we expect to achieve further profitable growth. This will be accomplished by leveraging existing infrastructure, implementing strategic alliance marketing initiatives and significant expansion of e-business programs already in development. The establishment of sales representation in strategic growth areas, including an office that we have just opened in Beijing, China, will increase the international revenue base of our Compression Group. We currently have excellent long-term prospects in the United States, Europe, Russia, Asia, Latin America and Southeast Asia. We will continue to explore acquisition opportunities in several select markets.

Strengthening product support. After-market parts and service are extremely important elements in each of Toromont's businesses, as they provide long-term annuity income throughout the business cycle. Since 1994, parts and service revenues have grown at an average annual compound growth rate of 10%. With continued market share advances, future product support growth is enhanced. Marketing efforts across both operating groups continue to stress life cycle cost management. CIMCO and Toromont Process, in particular, have recently made excellent strides in expanding their service offerings. Further, the internet-based "Parts Store" is making a solid contribution to Toromont CAT and is being expanded to include the sale of remanufactured and used parts.

Broadening our product offerings and capabilities. Our portfolio of products continues to expand. An example of Caterpillar's success is the EPA-approved and revolutionary ACERT engine, which is expected to have a major impact on the truck engine market. Battlefield continues to increase rental and sales diversity by adding new products to their lineup. CIMCO is moving to satisfy the need for more energy efficient ice rinks by introducing Eco-Chill™ in 2003, which incorporates a unique method of energy recycling to substantially reduce costs. The recent purchase of Energy Industries has greatly enhanced the reciprocating compression capabilities of the Compression Group.

In support of profitable growth in these three areas is a fourth critical component:

[illegible]

We will continuously provide our employees with better tools to serve customers and, provide our customers with the technology to better meet their business needs. Major efforts are underway in our Equipment Group to create business-to-business portals. In the Compression Group, we are progressing well with the implementation of a new business enterprise system for the industrial operations.

We are extremely fortunate to have an experienced, well-tenured and motivated workforce that has the ability to identify and capitalize on opportunities. We are very attentive to recruiting, training, motivating and succession planning throughout Toromont.

Collectively, our Board of Directors and employees own 13% of the outstanding shares of Toromont. In order to receive options, employees must own at least as many shares as the annual options grant. Incentive compensation is geared to absolute profit and allocated in accordance with group and individual performance. Clearly, our employees' interests are closely aligned with our shareholders.

Outlook

What does opportunity look like? We believe it looks like Toromont today. In fact, the opportunities discussed in this report are here and now, well within our grasp. They represent promising incremental revenue and earning streams that we expect will contribute significantly to our future.

Toromont maintains the strongest balance sheet of all our competitors. This holds true even after the acquisition of Energy Industries. In addition to our disciplined management approach, this financial strength and long-term perspective allows our Company to capitalize on opportunities when they arise.

2002 was full of challenges, yet it was very productive and profitable. Recently acquired businesses have yet to achieve target returns, but remain works in progress that are expected to make a stronger contribution over the next couple of years. The stage is set for continued growth and progress through 2003 and beyond. While we have ample work to do and improvements to make, we are keenly optimistic about Toromont's future. We have a strong team in place, from our committed and experienced Board of Directors and our more than 3,000 motivated employees to our local and international business partners. This team has the keys to help open the door to future opportunities.

Ronald G. Willox joined your Board in 1987, bringing considerable management experience in businesses similar to Toromont's. Over the past 15 years Ron has been very active in assisting our senior management through transitions and has been a valuable resource. Having reached the mandatory retirement age, Ron will not be standing for re-election at this year's Annual Meeting. On behalf of our employees, our directors and our shareholders, we thank Ron for his many years of service and outstanding contribution to Toromont.

We are extremely appreciative of our many loyal customers and shareholders.

Yours sincerely,

Hugo T. Sørensen
President and
Chief Executive Officer

Robert M. Ogilvie
Executive Chairman

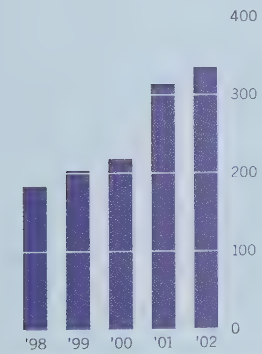
February 2003

Financial highlights

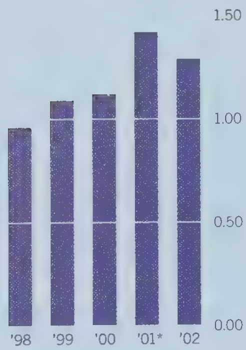
$ thousands, except per share data	2002	2001	
Revenues	$ 1,076,930	$ 911,005	$ 800,464
Operating Income	74,829	65,129	59,676
Net earnings	41,375	43,700	32,345
Working capital	213,222	218,132	165,098
Total assets	771,902	720,702	613,787
Shareholders' equity	335,316	314,248	218,213
Cash from operations before change in non-cash working capital	73,546	65,306	59,283
Cash from operations per share	$ 2.29	$ 2.13	$ 2.05
Basic earnings per share	1.29	1.42	1.12
Dividends per share	0.36	0.34	0.32
Equity per share	10.57	9.79	7.53
Return on opening shareholders' equity*	13.2%	17.1%	15.9%
Shares outstanding			
At year end	31,727,573	32,097,473	28,975,698
Weighted average for year	32,127,460	30,694,517	28,953,200

** Adjusted for share issue in 2001*

Shareholders' equity
($ millions)

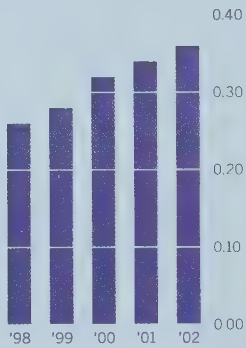


Earnings per share
($)



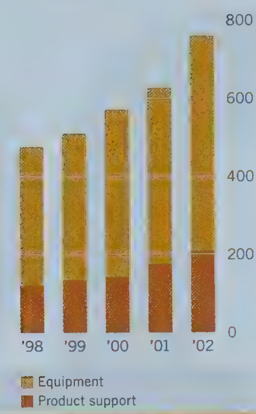
** Includes investment gains*

Dividends per share
($)



Equipment Group

Equipment Group revenues
($ millions)



Toromont CAT

One of the world's largest Caterpillar dealerships by revenue and geographic territory, with a network of branches in Ontario, Manitoba, Nunavut and Newfoundland and Labrador, providing a broad range of equipment supply and customer service capabilities.

- Achieved highest ever market share of new tractor unit sales
- Increased product support revenue for the 10th consecutive year
- Parts Store (Internet) activity increased from 862 purchases in 2001 to more than 10,000 in 2002
- Strong year for used equipment sales
- A record contribution from Power Systems by meeting customers' power needs in the commercial and municipal sectors
- On-highway truck division increased market share and prepared for tough new EPA emission rules

Battlefield Equipment

A one-stop source for more than 300 brand name products, with a network of branches across Ontario, Manitoba and Newfoundland and Labrador providing rental equipment to construction contractors and specialized rental equipment to plant maintenance contractors.

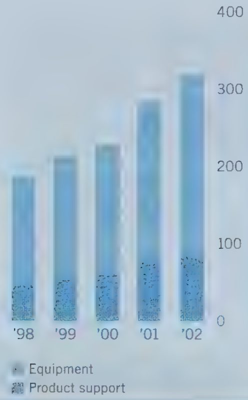
- Expanded e-business system, enabling customers to electronically access rental contracts, invoices and proof of delivery documents on-line for enhanced asset management
- Entered the heavy civil and road building markets in Manitoba and added coverage in Winnipeg
- Increased Caterpillar rental fleet in territory
- Together with Toromont CAT, provided the majority of equipment to World Youth Day in Toronto
- Increased rental revenue in Newfoundland and supplied equipment to the expanding offshore oil industry

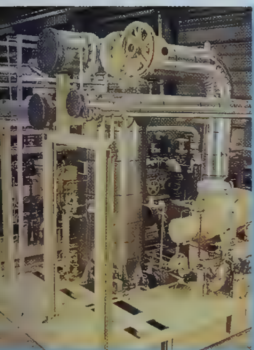
Ontario Sterling

The leading Sterling Truck franchise in the Greater Toronto Area, selling and servicing medium and heavy duty Class 6 to Class 8 trucks, most of which are powered by Caterpillar engines.

- The #1 Sterling dealer in Canada for new trucks and parts in 2002
- Recognized as the #1 Sterling dealer for North America based on percentage growth in parts sales year-over-year
- Significantly expanded the number of Customer Service Agreements and doubled the number of service mechanics since early 2001
- Delivered Caterpillar engines in more than 70% of new trucks sold

Compression Group

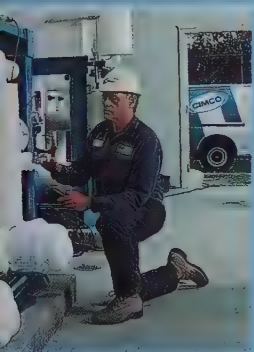




Toromont Process Systems

Global provider of compression systems including process and refrigeration applications to the petrochemical, natural gas and power generation industries with 12 facilities in North America and one in the United Kingdom.

- Delivered compression and process systems to international destinations in 2002 including Australia, Croatia, China, Hungary, Ireland, and Pakistan
- Secured a major order for 12 fuel gas compression packages from a major oil and gas producer in Russia
- Obtained substantial bookings for gas compression equipment to be located in the Powder River Basin in Wyoming
- Increased rental revenue 86% over 2001
- Opened 142,000 square foot manufacturing facility in Calgary in early 2003 that, along with the early 2003 acquisition of Energy Industries, will facilitate further market expansion



CIMCO Refrigeration

Canada's largest supplier of industrial and recreational compression equipment, providing full-service capabilities including design, engineering, installation and after-market service.

- Delivered industrial refrigeration systems to major users such as: McCain Foods, Kraft Foods, Atlas Cold Storage, Pepsi Cola, Sobey's, Cargill Foods, Simplot
- Provided recreational refrigeration systems to sports complexes including: MSG Training Center (shared by New York Rangers, New York Nicks and WBA), Glendale Coyote Arena (home of Phoenix Coyotes), Houston Multi-Purpose Arena (home of Houston Rockets), Hershey Centre, Mississauga and John Labatt Centre, London
- Successfully implemented new business enterprise technology system at several Canadian branches

Aero Tech Manufacturing

U.S.-based provider of precision sheet metal fabrication and assembly services for North America's gaming, water filtration, medical equipment, electronics industries and ceiling panel systems for commercial and industrial settings.

- Provided products to more than 30 water filtration projects in North America and doubled the revenue contribution from this market
- Significantly increased sales into medical markets
- Added new Vipros Punching Cell technology and Conduit Spot Welder to increase capacity and improve efficiency

BUILDING SHAREHOLDER VALUE

Toromont's success in building shareholder value is founded on a strong balance sheet and a long-term track record of sustainable and profitable growth. The average annual compound growth in revenues is 19% over the last ten years. In the same time frame, net earnings have increased at an average compound rate of 28%. The Company has now reported sixty-four consecutive quarters of earnings. The 24% increase in earnings (exclusive of investment gains) achieved on 18% higher revenues in 2002 was consistent with Toromont's commitment to profitable growth over the long term.

Additional indicators of consistent value creation

In the most recent ten years, earnings have contributed $315 million to equity while dividends of $65 million have been paid to shareholders. Shareholders' equity has more than doubled in the last five years and has increased thirteen fold to $335 million in the last ten years. The most recent five and ten year average returns on shareholders' equity were 18% and 27% respectively. Dividends have now been paid for thirty-four years running; 2002 represented the thirteenth consecutive year of higher dividends. The dividend declared in February, 2003 is the fourteenth successive increase and thirty-fifth consecutive year of payment.

Opportunities for profitable growth

A strong, well-capitalized balance sheet and financial flexibility are key ingredients to building shareholder value through organic growth and acquisitions. Management intends to achieve consistent profitability through initiatives on both fronts. In recent years, we have been deliberate in building capital when supply was available at attractive pricing. We understand that our funding exceeds near-term needs and that this suppresses returns in the short term. We are convinced that this approach is fundamental to sound financial management focussed on the future. Present leverage is limited. At December 31, 2002, total debt, net of invested cash, to shareholders' equity was a modest 0.4:1. We are patient.

Internal initiatives to secure profitable growth include the pursuit of market share gains, broadening of product offerings, expansion of market coverage through both geographic diversification and industry focus, extending service offerings and securing exclusive supply relationships with customers, and the achievement of product support growth backed by strong management information systems, customer service agreements and e-commerce solutions.

Acquisition activity will contribute to overall growth and profit objectives through the identification of prospects that are reasonably priced and that are either performing very well prior to acquisition or alternatively present significant opportunities for improvement in a reasonable timeframe. The acquisition of Energy Industries Inc. is an example of an acquisition that will expand both market coverage and product offering, in addition to being accretive to earnings. Synergies with the existing Compression operations are expected to further enhance profitability in relatively short order. The 2001 acquisition of the Caterpillar dealership in northern Ontario, Manitoba and Nunavut is a good example of acquisition activity that offers opportunity for significant improvements in profitability upon full integration with existing operations.

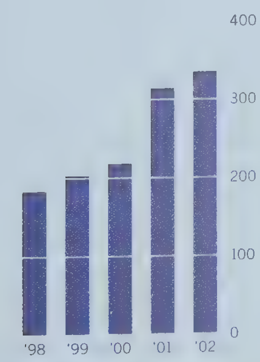
Toromont's [illegible]

Toromont's two business segments serve a number of markets that are diverse geographically and by industry. While the province of Ontario is still the most dominant source of revenues, substantial sales are derived in other provinces, the United States and offshore markets. Major customers participate in a broad range of industries from construction, infrastructure, aggregates, steel, waste management, equipment rentals, agriculture, forestry and mining, to oil and gas, petrochemicals, food and beverage processing, cold storage, recreation, and co-generation. This diverse customer base has enabled Toromont to identify and penetrate new markets, expand its product offerings, consistently add to its installed base of equipment and foster the after-market product support activities which are a common thread and critical component across Toromont's operations.

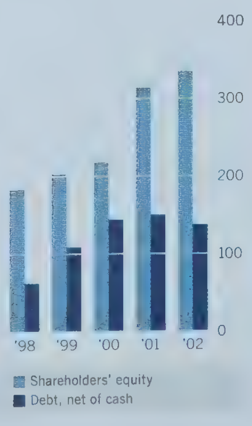
Approximately 70% of 2002 revenues were derived from the Equipment Group, which primarily sells, rents and services a broad range of construction equipment and industrial engines through Toromont's Caterpillar dealership and Battlefield operations. Performance in this business segment is, among other factors, strongly related to activity in the residential and commercial construction, infrastructure, road building, aggregates, waste management, steel, forestry, mining and agriculture industries. Other significant components of the Equipment Group include sales and product support activities for Caterpillar engines used in a variety of applications including on-highway trucks and industrial and marine applications. Packaging of Caterpillar engines also extends to co-generation applications sold to third parties. The final component of the Equipment Group is the Ontario Sterling truck dealership that sells and services vocational trucks for which many are equipped with Caterpillar engines.

We now use "Compression Group" to discuss those activities formerly referred to as the Refrigeration Group. Compression includes the same business components, including industrial and recreational refrigeration, carbon dioxide compression, process systems, fuel gas compression and natural gas compression. This change acknowledges that all of these activities involve compression of gases and that our expanding process operations (carbon dioxide compression, process systems, fuel gas compression and natural gas compression) now constitute more than two-thirds of the Compression Group revenues. The Compression Group, through Toromont Process Systems and CIMCO, is a market leader in process, industrial and recreational compression applications. Results in the Compression Group are influenced by conditions in the primary market segments in which it competes, spanning the chemical, petrochemical, natural gas and co-generation industries and in industrial markets including food and beverage processing, cold storage, food distribution, and ice rink construction.

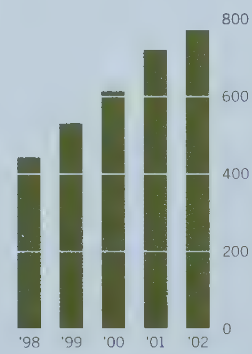
Shareholders' equity
($ millions)



Capital
($ millions)



Total assets
($ millions)



Operating results – fourth quarter

The final three months of 2002 produced brisk activity and record revenues across most of our markets. Consolidated revenues were $325 million, a 14% increase from last year on new highs in both the Equipment and Compression Groups. Consolidated operating income (earnings before interest expense, interest and investment income and income taxes) was down 2%, on lower gross profit margins on tractor sales and rentals and a lower relative weighting of the more profitable product support business in the quarter. Selling and administrative expenses were up 7%.

Net earnings of 60 cents per share ($19.2 million) compared to 53 cents ($16.9 million) for the same period last year. Lower net interest expense on reductions of long-term debt during 2002, and a lower effective income tax rate arising from federal and provincial reductions and large corporation tax savings, produced the net earnings improvement relative to the fourth quarter, 2001.

Operating results – full year 2002

The financial performance from operating activities hit record levels for the year, as Toromont's revenues exceeded $1 billion. Consolidated revenues for the year were $1,077 million, up 18% from the previous high of $911 million in 2001. Exclusive of $64 million of incremental revenues in 2002 from acquisitions made in 2001, revenues were 11% higher. The Equipment and Compression Groups reported increases of 21% and 12% respectively (up 11% and 10% exclusive of acquisitions).

The gross profit margin of 20.2% was down 0.4 points from 2001, primarily reflecting lower margins in the Equipment Group on rental activities.

Selling and administrative expenses increased $20 million (16%) to $142 million. The full year inclusion of new businesses accounted for $13 million of the increase. Exclusive of these operations, expenses were up $7 million (6%), comparing favourably to the stronger revenue increase. Expenditures on information technology initiatives (including e-commerce and the new business enterprise system for the industrial compression operations) and the third quarter charge for a potential uncollectible account represented $2 million of the $7 million increase.

$ thousands	2002	2001	2000
Equipment Group	$ 759,665	$ 626,889	$ 571,362
Compression Group	317,265	284,116	229,102
	$ 1,076,930	$ 911,005	$ 800,464

Operating inco[illegible]

$ thousands		2002				
		% to Revenues				
Equipment Group	$ 46,907	6.2	[illegible]	[illegible]	[illegible]	[illegible]
Compression Group	27,922	8.8	[illegible]	[illegible]	[illegible]	[illegible]
	$ 74,829	6.9	[illegible]	[illegible]	[illegible]	[illegible]

Consolidated operating income reached a record $74.8 million, up 15% from $65.1 million in 2001. The reduction in consolidated operating margin from 7.1% of sales in 2001 to 6.9% was attributable to the gross profit margin decline.

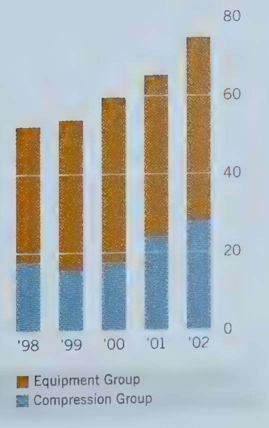
Interest expense decreased to $11.4 million from $12.0 million in 2001 with lower long-term debt outstanding. Interest and investment income, exclusive of investment gains, amounted to $4.2 million compared to $5.7 million as a result of lower average cash balances available for investing, compounded by lower interest income on rental conversions. Sale of investments resulted in capital gains of $13.2 million in 2001.

The effective tax rate of 38.9% was down from 43.3% last year (exclusive of capital gains in 2001) due to rate reductions announced in 2000 by the federal and Ontario governments, combined with the recovery of large corporations tax in the fourth quarter.

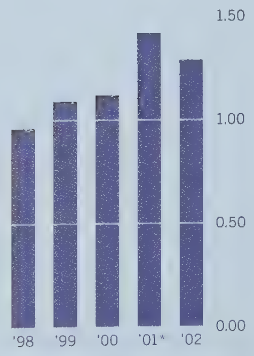
Net earnings were $41.4 million or $1.29 per share compared to $33.4 million or $1.08 per share for 2001 exclusive of investment gains ($43.7 million or $1.42 per share inclusive of gains).

Return on shareholders' equity was 13% in 2002. This was comparable to the 13% return achieved in 2001 before capital gains on disposal of investments (17% inclusive of gains).

Consolidated operating income
($ millions)

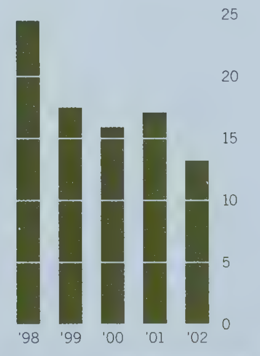


Earnings per share
($)



** Includes investment gains*

Return on shareholders' equity
(%)



Equipment Group

Equipment Group revenues were up 21% to $760 million from $627 million in 2001. The full year impact of businesses acquired during 2001 contributed approximately half ($61 million) of the revenue increase. Exclusive of acquisitions, revenues were 11% higher in 2002.

Revenues from machine sales and rentals increased 22% to $551 million, while product support revenues were up 19% to $209 million (up 14% and 6% respectively before acquisitions).

Following a decline in 2001, total industry deliveries of new tractor units for construction and industrial applications further weakened across most markets in 2002. Industry demand was down about 15% from 2001. Lower deliveries were noted in the general construction sector (residential and commercial construction and local infrastructure), heavy construction (road building and major infrastructure), equipment services (rental operators) and forestry. Stronger markets included mining, aggregates, and industrial (steel, waste services, etc.), although these sectors only accounted for about 10% of total deliveries. The general and heavy construction markets represent approximately 40% and 20% respectively of industry deliveries, and hence heavily influence overall industry trends.

Notwithstanding industry declines, Toromont realized broadly-based market share gains across the general and heavy construction, industrial and mining sectors. Deliveries to rental operators and forestry were down.

Revenues from the sale of new tractor units increased 23% to $215 million, in large part due to the higher relative component of higher value equipment in 2002 and the Powell acquisition. Sales of industrial engines were up 32% to $59 million, surpassing the previous peak reached in 1999. Total new sales (tractor, industrial engines, truck and lift) were $327 million, up 28%. Sales of used machines were 23% higher to $124 million. Rental revenues of $88 million were flat (excluding acquisitions) as a result of lower utilization and increased discounting across the industry. Higher truck sales represented $14 million in revenue growth as customers ordered 2002 models in advance of the higher-priced 2003 models with new stricter emission control standards.

Operating income increased 14% to a record $46.9 million on 21% higher revenues. The operating margin decreased to 6.2% from 6.6% in 2001 due to lower gross profit margins on rental activities and machine sales, and a full year weighting of acquired businesses with their lower relative profitability to date.

Equipment Group Capital expenditures were $34 million compared to $66 million in 2001. Additions to rental fleet were significantly lower, at $19 million compared to $37 million in 2001, in reaction to softer markets. The 2002 investment in power generation assets was $3 million (completion of Sudbury Regional Hospital plant and additional capacity at Waterloo Landfill site), bringing the Company's investment in these assets to $43 million (net book value $39 million) at December 31, 2002. Further investment, outside of enhancements to existing plants, is on hold pending market developments. Additions to property, plant and equipment, exclusive of rental equipment additions and power generation assets, amounted to $12 million in 2002. This included expenditures on leasehold improvements, machinery and equipment, information technology assets, furniture and fixtures and vehicles.

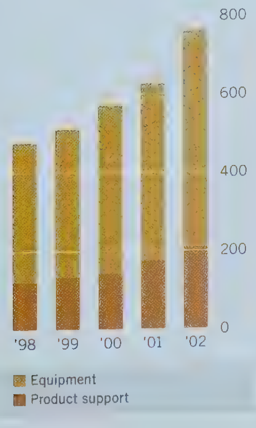
Compression Group

Compression revenues were up 12% to $317 million following a 24% increase in 2001. Double-digit growth was experienced in each quarter, producing a full year increase of 14% for the process operations and 9% for industrial. Revenues from package deliveries increased by 12% to $234 million, on stronger industrial and carbon dioxide compression activity. Sales of natural gas compression packages were down modestly from last year on lower demand throughout the gas industry. Compression Group product support revenues were $83 million, up 10% in 2002 (5% exclusive of acquisitions).

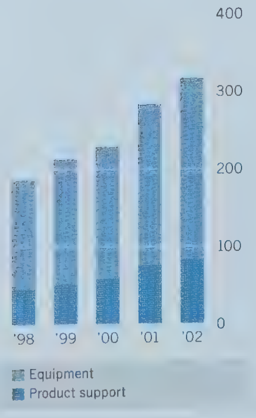
Operating income increased 17% to $27.9 million from $24.0 million in 2001 on the higher revenues. Operating margins improved to 8.8% from 8.4% in 2001 due to slightly higher gross profit margins for both package sales and product support activities. The third quarter expense in relation to a large past due account detracted from an otherwise exceptional contribution by the Compression Group.

Capital expenditures amounted to $24 million in 2002. This relates primarily to $15 million of additions for the new facility in Calgary (after spending $4 million in 2001) and $3 million on the business enterprise system for the industrial compression operations. The new Calgary facility, with a final expected cost of approximately $24 million, was completed and production commenced in early 2003.

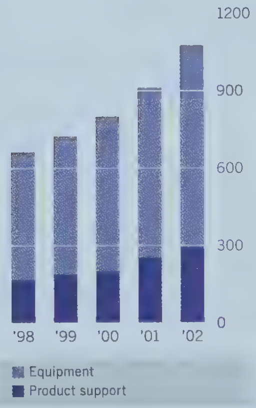
Equipment Group revenues
($ millions)



Compression Group revenues
($ millions)



Consolidated revenues
($ millions)



Liquidity and capital resources

Toromont's capital base strengthened further in 2002. Equity increased 7% to $335 million. The Company also purchased 536,500 common shares for a total cost of $10.2 million under its Normal Course Issuer Bid.

Toromont's principal sources of liquidity are its internal cash flow from operations, complemented by short-term credit facilities. Recently, the Company increased its short-term borrowing capacity by $30 million. Historically, the Company's primary uses of cash have been to finance capital expenditures, fund working capital requirements, repayments of long-term debt and dividend payments to shareholders. Credit facilities inclusive of bank lines, all of which are unsecured, amounted to $279 million at year-end of which $104 million was unutilized. Of the long-term debt, $152 million was fixed at 6.7% with varying maturities through to 2019, and $20 million is at variable rates averaging 3.9%. Total debt, net of cash, amounted to 41% of equity compared with 48% at the end of 2001.

Operating activities remained a major source of funds. In 2002, cash from operating activities amounted to $73 million compared to $65 million. Change in non-cash working capital used $1 million in cash compared to $33 million in 2001, a result of working capital improvements in the dealership operations. Cash from operations, net of working capital investments, generated $72 million in cash compared to $32 million in 2001.

Capital expenditures amounted to $58 million (2001 – $77 million) consisting of $36 million in property, plant and equipment, $19 million in rental fleet and the balance in power generation assets. Further details on capital expenditures are outlined at the end of each of the Equipment Group and Compression Group narratives. Subsequent to December 31, 2002, Toromont completed the purchase of the land and buildings of the Caterpillar dealership in Concord, Ontario for $12.6 million in cash. Inclusive of the purchase of the Concord facility, the Company contemplates combined expenditures for 2003 on property, plant and equipment, and rental fleet at a comparable level to 2002. Rental fleet expenditures are expected to remain low until market conditions improve. Further investment in power generation assets will be curtailed until the uncertainty surrounding electricity markets has diminished.

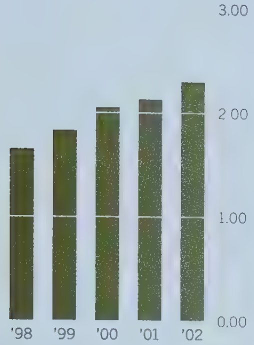
There were no business acquisitions during 2002, while acquisitions used $85 million in cash during 2001. The 2001 acquisitions were financed through a $68.5 million common share issue and the liquidation of short-term investments. Repayment of long-term debt amounted to $13.4 million compared to an increase in long-term debt of $19 million for 2001. Dividend payments required $11.5 million in cash, slightly higher compared to 2001 reflecting the increased payment and higher shares outstanding.

Toromont pays quarterly dividends on its outstanding common shares, a policy which is reviewed on an ongoing basis by the Board of Directors and management in consideration of earnings prospects, financial requirements and general economic circumstances. During 2002, the Company increased its regular quarterly dividend by 6%, maintaining a long-term average target payout of approximately 30% of trailing earnings from operations.

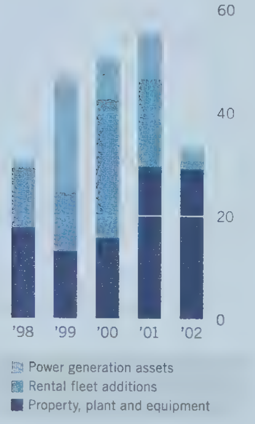
Capital expenditures

$ thousands	2002	2001	2000
Property, plant and equipment	$ 35,921	$ 31,070	$ 16,595
Rental equipment	18,937	37,240	33,506
Power generation assets	2,822	9,084	$ 7,867
Total	$ 57,680	$ 77,394	$ 57,968

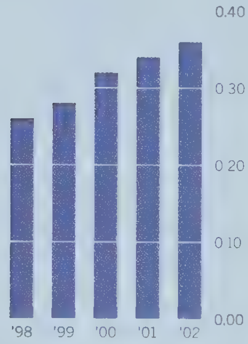
Operating cash flow per share
($)



Capital expenditures, net
($ millions)



Dividends per share
($)



Risks and uncertainties

Toromont's financial performance may be impacted by certain factors that may favourably or adversely affect either or both of its business segments. The following paragraphs review key business risks and uncertainties.

Business cycle

While the overall rates of growth in the North American and global economies is not to be ignored, expenditures on capital goods have historically been cyclical, reflecting a variety of factors including interest rates, consumer and business confidence, corporate profits, credit conditions and the availability of equity capital. Toromont's business is diversified across a range of industry market segments and geographic territories, serving to moderate the effects of business cycles on consolidated results. Continued diversification through expansion of the customer base, broadening of the product offering, and geographic diversification will further moderate business cycle impacts. Across both operating segments, the Company has focused on the sale of specialized equipment that requires ongoing support through parts distribution and skilled service personnel. Achieving sustainable improvements in market share has been, and will continue to be, fundamental to growing the installed base of equipment. These strategies should mitigate downturns in the business cycle. The product support business contributes significantly higher profit margins and is subject to less volatility than equipment supply activities.

Interest rates

Interest rate risk has been reduced through a balance of medium and long-term debt at fixed rates as well as through an interest rate swap agreement with traditional banking sources. The Company utilizes centralized cash management systems in Canada and the United States to minimize short-term interest expense and ensure control over its cash resources. Excess cash is invested in high quality short-term instruments to optimize returns until the funds are required.

Currency fluctuations

The Caterpillar dealership and equipment rental operations source the majority of their products from the United States. In addition, the Canadian Compression operations purchase certain raw materials and components from suppliers in the United States and Japan. Consequently, reported costs of inventory and the transaction prices charged to customers for equipment and parts are affected by the relative strength of the Canadian dollar. Pricing to the Caterpillar dealership's customers is adjusted to reflect changes in the Canadian dollar landed cost of products from Caterpillar Inc. Compression operations are also generally able to recover the cost of exchange rate movements through adjustments to selling prices.

Fluctuations in the value of the U.S. dollar relative to the Canadian dollar also has some impact on Toromont's consolidated financial reporting, with the financial results of subsidiaries in the United States being translated into Canadian dollars upon consolidation. However, such exchange rate fluctuations have historically not been material relative to the overall earnings or financial position of the Company.

Product and supply

The majority of the Caterpillar dealerships' revenues and product support activities involve Caterpillar products. Toromont has maintained an excellent relationship with Caterpillar over the past ten years and management expects this will continue going forward.

Outlook

The Caterpillar dealership continued its momentum through the fourth quarter, with a strong share of new tractor deliveries and continued growth in industrial engine revenues. Tractor order backlogs of $35 million at December 31 were at a record high and more than double a year ago, providing a good start to 2003. Rental markets are expected to continue to be hindered by competitive activity in the near term.

The November announcements by the Ontario government with respect to electricity markets in the province have accentuated the uncertainty relative to power generation opportunities. Until legislation is in place and markets react, it is very difficult to assess prospects in the power generation sector. In the meantime, we continue to monitor "open-market" pricing activity and focus on optimizing the overall returns from our power generation assets.

Compression Group order backlogs at December 31 of $112 million matched the record level of a year ago. Energy Industries will enhance our participation in natural gas reciprocating compression systems, and will give us a stronger presence in the global gas compression industry.

The Canadian economy performed stronger than expected in 2002. Should economic growth continue in 2003, prospects for another year of revenue and earnings growth are positive.

Advisory

This document contains forward-looking statements which are subject to certain risks, uncertainties and assumptions. Should one or more of these risk factors materialize, or should assumptions prove incorrect, actual results may vary significantly from those expected.

Management's responsibility for financial information

The accompanying consolidated financial statements and all information in the Annual Report have been prepared by management and approved by the Board of Directors of the Company. The consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles and, where appropriate, reflect management's best estimates and judgments. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality and for the consistency of financial data included in the text of the Annual Report with that contained in the consolidated financial statements.

To assist management in the discharge of these responsibilities, the Company maintains a system of internal controls designed to provide reasonable assurance that accounting records are reliable and its assets are safeguarded.

The Audit Committee, which is comprised exclusively of outside directors, is appointed annually by the Board of Directors. The Audit Committee meets with management as well as with external auditors to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements and the independent auditors' report. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for presentation to the shareholders. The external auditors have direct access to the Audit Committee of the Board of Directors.

The consolidated financial statements have been independently audited by Ernst & Young LLP on behalf of the shareholders, in accordance with Canadian generally accepted auditing standards. Their report outlines the nature of their audit and expresses their opinion on the consolidated financial statements of the Company.

Wayne S. Hill
Executive Vice President and
Chief Financial Officer

January 21, 2003

Auditors' report

To the Shareholders of Toromont Industries Ltd.

We have audited the consolidated balance sheets of Toromont Industries Ltd. as at December 31, 2002 and 2001 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Ernst & Young LLP
Chartered Accountants

Toronto, Canada
January 21, 2003
(except as to note 15 which is as of March 6, 2003)

Consolidated financial statements

Consolidated balance sheets

December 31 *$ thousands*	2002	2001
Assets		
Current assets		
Cash and cash equivalents	$ 34,442	$ 35,025
Accounts receivable	186,990	164,376
Inventories *(note 3)*	242,831	225,568
Future income taxes *(note 10)*	11,161	10,118
Other current assets *(note 5)*	7,583	9,181
Total current assets	483,007	444,268
Property, plant and equipment *(note 4a)*	129,939	111,142
Rental equipment *(note 4b)*	89,519	102,943
Power generation assets *(note 4c)*	39,306	38,019
Other assets *(note 5)*	17,131	11,330
Goodwill *(notes 1 and 2)*	13,000	13,000
	$ 771,902	$ 720,702
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 242,939	$ 204,332
Current portion of long-term debt *(note 6)*	15,490	13,388
Income taxes payable	11,356	8,416
Total current liabilities	269,785	226,136
Long-term debt *(note 6)*	156,479	171,970
Employee future benefits *(note 12)*	5,175	5,447
Future income taxes *(note 10)*	5,147	2,901
Shareholders' equity		
Share capital *(note 8)*	97,329	97,367
Retained earnings	235,639	214,360
Currency translation adjustment	2,348	2,521
Total shareholders' equity	335,316	314,248
	$ 771,902	$ 720,702

See accompanying notes

Approved by the Board:

Robert M. Ogilvie
Director

John S. McCallum
Director

Consolidated statements of earnings

Years Ended December 31 *$ thousands, except share amounts*	2002	2001
Revenues	$ 1,076,930	$ 911,005
Cost of goods sold	859,646	722,962
Gross profit	217,284	188,043
Selling and administrative expenses	142,455	122,914
Operating income	74,829	65,129
Interest expense *(note 6)*	11,366	11,962
Interest and investment income	(4,230)	(18,875)
Income before income taxes	67,693	72,042
Income taxes *(note 10)*	26,318	28,342
Net earnings	$ 41,375	$ 43,700
Earnings per share *(note 8)*		
Basic	$ 1.29	$ 1.42
Diluted	$ 1.28	$ 1.41
Weighted average shares	32,127,460	30,694,517

See accompanying notes

Consolidated statements of retained earnings

Years Ended December 31 *$ thousands*	2002	2001
Retained earnings, beginning of year	$ 214,360	$ 188,411
Net earnings	41,375	43,700
	255,735	232,111
Dividends	(11,541)	(10,646)
Shares purchased for cancellation *(note 8)*	(8,555)	–
Settlement of options (net of taxes of $4,810)	–	(7,105)
Retained earnings, end of year	$ 235,639	$ 214,360

See accompanying notes

Consolidated statements of cash flows

Years Ended December 31 *$ thousands*	2002	2001
Sources (uses) of cash and cash equivalents		
Operating activities		
Net earnings	$ 41,375	$ 43,700
Items not requiring cash		
Depreciation	36,652	34,369
Employee future benefits	(272)	570
Future income taxes	1,009	4,257
Gain on sale of rental equipment and property, plant and equipment	(5,218)	(4,395)
Gain on sale of short-term investments	–	(13,195)
	73,546	65,306
Change in non-cash working capital and other		
Accounts receivable	(22,614)	10,056
Inventories	(17,263)	3,993
Accounts payable and accrued liabilities	33,969	(39,952)
Other	4,559	(7,837)
	72,197	31,566
Investment activities		
Additions to property, plant and equipment	(31,283)	(31,070)
Additions to rental equipment	(18,937)	(37,240)
Additions to power generation assets	(2,822)	(9,084)
(Increase) decrease in other assets	(5,801)	4,693
Sale of rental equipment	17,443	20,230
Sale of property, plant and equipment	2,143	1,611
Business acquisitions *(note 2)*	–	(84,801)
Short-term investments	–	46,845
	(39,257)	(88,816)
Financing activities		
Repayment of long-term debt	(13,389)	(9,429)
Issue of long-term debt	–	28,450
Dividends	(11,541)	(10,646)
Shares purchased for cancellation *(note 8)*	(10,195)	–
Shares issued on exercise of options *(note 8)*	1,602	671
Settlement of options	–	(7,105)
Net proceeds of share issue *(note 8)*	–	68,534
	(33,523)	70,475
Cash and cash equivalents		
(Decrease) increase during year	(583)	13,225
Beginning of year	35,025	21,800
End of year	$ 34,442	$ 35,025
Supplemental cash flow information		
Interest paid	$ 11,979	$ 12,413
Income taxes paid	24,179	23,917
Capital asset additions included in accounts payable and accrued liabilities	4,638	–

See accompanying notes

1. Significant accounting policies

The consolidated financial statements of Toromont Industries Ltd. (the Company) have been prepared by management in accordance with Canadian generally accepted accounting principles.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses during a period.

Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. The Company proportionately consolidates its 50% investment in Sudbury District Energy Corporation. Significant transactions and profits between the Company and its subsidiaries have been eliminated.

Translation of foreign currencies

The accounts of foreign subsidiaries are translated into Canadian funds using current rates of exchange for assets and liabilities and average rates for revenue and expense. The unrealized translation gains or losses arising on the net investment in these operations are accumulated in the currency translation adjustment account in shareholders' equity.

Derivative financial instruments

The Company enters into foreign exchange forward contracts to hedge purchases and the related accounts payable to suppliers in the United States. Exchange translation gains and losses on foreign currency denominated derivative financial instruments used to hedge such U.S. denominated purchases are recognized as an adjustment to inventories when the purchase is recorded.

The Company has also entered into an interest rate swap to reduce the impact of fluctuating rates on $30 million of debt. Interest expense on this debt is adjusted to include payments made or received under the swap agreement.

Revenue recognition

Revenues from equipment supply involving design, manufacture and installation are recorded on the completed contract method based upon substantial technical completion. Any foreseeable losses on such projects are charged to operations when determined.

Revenues from equipment sales, manufactured products and parts are recorded when goods are shipped. Revenues from service and maintenance contract activities, equipment rental and power generation are recognized as services are rendered.

Income taxes

The liability method of accounting for income taxes is used. Income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the consolidated financial statements and their respective tax bases, using substantively enacted income tax rates. The effect of a change in income tax rates on future tax liabilities and assets is recognized in income in the period that the change occurs.

Stock-based compensation

Effective January 1, 2002, the Company adopted the new recommendations of The Canadian Institute of Chartered Accountants in accounting for stock-based compensation for stock option awards granted subsequent to the date of adoption. The intrinsic value method of accounting for stock option awards granted to employees has been applied, and accordingly no compensation cost has been recognized.

Diluted earnings per share

Diluted earnings per share are calculated using the treasury stock method under which deemed proceeds on exercise of options are considered to be used to re-acquire common shares at an average share price.

Cash and cash equivalents

Cash and cash equivalents, including cash on account, demand deposits and short-term investments with original maturities of three months or less are recorded at cost, which approximates market value.

Inventories

Equipment inventories, repair and distribution parts, and work-in-process are recorded at the lower of cost and net realizable value. Cost is determined on a specific item, actual cost basis. Direct materials are recorded at the lower of actual cost and replacement cost.

Property, plant and equipment, rental equipment and power generation assets

Property, plant and equipment, rental equipment and power generation assets are recorded at cost. Depreciation is provided principally using the straight-line method over the estimated useful lives of the various classes of assets as follows:

Buildings	20–30 years
Rental equipment	1–10 years
Power generation assets	20 years
Equipment	3–10 years

Goodwill

Effective July 1, 2001, recommendations of The Canadian Institute of Chartered Accountants with respect to goodwill and other intangible assets were adopted. Goodwill and other intangible assets with indefinite useful lives are not amortized but are instead subject to impairment tests on at least an annual basis. Intangible assets, other than goodwill, which do not have indefinite useful lives are required to be amortized on a straight-line basis over their useful lives.

2. Business acquisitions

The standard requiring all business acquisitions to be accounted for using the purchase method was adopted prospectively from July 1, 2001. The purchase price of a business is allocated to the assets acquired and the liabilities assumed based on their fair value at date of acquisition, with any excess recognized as goodwill.

Effective July 1, 2001, 100% of the shares of Powell Equipment Limited ("Powell") were purchased for $25.7 million. The purchase price, inclusive of debt assumed, was $70.5 million. The results of Powell are included in the consolidated financial statements from July 1, 2001. During 2001 four additional businesses were purchased for cash. All acquisitions were accounted for using the purchase method and included in the accounts of the Company from the dates of acquisition, summarized as follows:

$ thousands			2001
	Powell	All Other	Total
Non-cash working capital	$ 35,854	$ 10,365	$ 46,219
Rental fleet	7,832	935	8,767
Capital and other long-term assets	11,753	3,041	14,794
Goodwill	13,000	–	13,000
Future income taxes	2,021	–	2,021
Total investment	70,460	14,341	84,801
Bank and other indebtedness	(44,768)	–	(44,768)
Purchase price	$ 25,692	$ 14,341	$ 40,033

Goodwill included amounts totalling $6.4 million that are deductible for tax purposes. No businesses were acquired in 2002.

3. Inventories

$ thousands	2002	2001
Equipment	$ 165,211	$ 156,700
Repair and distribution parts	52,960	48,429
Direct materials	13,121	8,971
Work-in-process	34,458	32,251
Progress billings and deposits	(22,919)	(20,783)
	$ 242,831	$ 225,568

4. Capital assets

$ thousands			2002			2001
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
a. Property, plant and equipment						
Land	$ 26,417	$ –	$ 26,417	$ 24,604	$ –	$ 24,604
Buildings	84,940	20,165	64,775	73,359	17,192	56,167
Equipment	93,574	54,827	38,747	75,221	44,850	30,371
	$ 204,931	$ 74,992	$ 129,939	$ 173,184	$ 62,042	$ 111,142
b. Rental equipment	$ 146,283	$ 56,764	$ 89,519	$ 150,300	$ 47,357	$ 102,943
c. Power generation assets	$ 42,926	$ 3,620	$ 39,306	$ 40,103	$ 2,084	$ 38,019

5. Other assets

Other current assets and other long-term assets include $3,301,000 (2001 – $3,295,000) and $13,329,000 (2001 – $6,824,000) respectively, representing equipment sold either directly to customers or to third-party lessors for which the Company has provided a guarantee to repurchase, at a predetermined residual value and date, in the event the customer decides not to retain the equipment or, in the case of a lease, not to purchase the equipment at the end of the lease term. In accordance with Canadian generally accepted accounting principles, such transactions that involve a repurchase undertaking by the Company, or other contingent obligation similar to the guarantee of lease residuals, are accounted for as capital leases, wherein revenue is recognized over the period extending to the date of the residual guarantee.

8. Long-term debt

$ thousands	2002	2001
Long-term debt		
Drawn on bank facilities	$ 30,000	$ 30,000
Senior and other debentures	100,000	100,000
Notes payable	41,969	55,358
	171,969	185,358
Less current portion of notes payable	15,490	13,388
Total long-term debt	$ 156,479	$ 171,970

All debt is unsecured.

The Company maintains $137,000,000 in bank credit, provided through revolving credit facilities, maturing in 2004. Bank borrowings bear interest at rates ranging from prime to bankers acceptance rates. $30,000,000 was drawn on credit lines at December 31, 2002 (2001 – $30,000,000). Standby letters of credit issued in lieu of holdbacks utilized an additional $3,203,000 of the credit lines at December 31, 2002 (2001 – $3,701,000).

Terms of the senior and other debentures are:

- $30 million, 8.17% senior debentures due September 18, 2008, interest payable semi-annually through September 18, 2004; thereafter, blended principal and interest payments through to maturity.
- $45 million, 6.80% senior debentures due March 29, 2011, interest payable semi-annually through March 29, 2007; thereafter, blended principal and interest payments through to maturity.
- $15 million, 7.06% senior debentures due March 29, 2019, interest payable semi-annually through September 29, 2009; thereafter, blended principal and interest payments through to maturity.
- $10 million debenture maturing in 2010 bears interest at prime plus 0.4%, monthly interest payments through to maturity.

Notes payable mature from 2003 to 2008 and bear interest at rates ranging from 2.91% to 7.75%.

The above credit arrangements include covenants, restrictions and events of default usual in credit facilities of this nature, including requirements to meet certain financial tests periodically and restrictions on additional indebtedness and encumbrances.

Scheduled principal repayments of long-term debt are as follows:

$ thousands	
2003	$ 15,490
2004	47,296
2005	16,414
2006	7,018
2007	16,454
2008 to 2019	69,297

Interest expense includes interest on debt initially incurred for a term greater than one year of $11,184,000 in 2002 (2001 – $10,965,000).

7. Financial instruments

Based on the amount that would be paid to hypothetically exchange the debt agreements at the reporting date, the fair value of the $100 million senior and other debentures at December 31, 2002 was $106,453,000 (2001 – fair value of $99,843,000) and the fair value of the notes was equal to the book value of $41,969,000 (2001 – fair value of $54,914,000 on the $55,358,000 notes outstanding). The Company has no plans to prepay any of its long-term debt commitments prior to maturity.

There is no significant concentration of credit risk with counterparties. Derivative instruments are undertaken only to hedge specific financial transactions and not for speculative purposes. Hedging activities are contracted with Canadian Schedule A chartered banks as counterparties. Transactions are limited to the following:

Foreign exchange contracts

In the normal course of business, foreign exchange contracts are entered into with financial institutions to hedge obligations related to purchases of inventory. Gains and losses arising from these contracts offset the losses and gains from the underlying hedged transactions. At December 31, 2002, foreign exchange contracts were outstanding to purchase US$44,552,000 against future commitments at an average rate of 1.57 (2001 – US$47,085,000 at 1.57). The related unrealized gains or losses for such contracts were not material for either year presented.

Interest rate swap agreement

At December 31, 2002 and 2001, a $30 million interest rate swap agreement was outstanding with a Canadian chartered bank. This transaction matures September 1, 2008, and provides fixed rate financing at 5.88% in exchange for floating rate obligations. The fair value of the swap outstanding at December 31, 2002 was $2,572,000 in favour of the counterparty (2001 – $1,363,000).

8. Share capital

Share capital consists of an unlimited number of authorized preferred and common shares.

Share capital transactions are summarized as follows:

		2002		2001
	Number of Shares	Amount ($ thousands)	Number of Shares	Amount ($ thousands)
Balance, beginning of year	32,097,473	$ 97,367	28,975,698	$ 28,162
Issue of shares	–	–	3,000,000	68,534
Exercise of stock options	166,600	1,602	121,775	671
Purchase of shares for cancellation	(536,500)	(1,640)	–	–
Balance, end of year	31,727,573	$ 97,329	32,097,473	$ 97,367

On June 14, 2001, the Company completed a public offering of 3,000,000 common shares at $23.50 per share. Proceeds were $68,534,000 after expenses net of related income taxes.

Executive Stock Option Plan

The aggregate number of common shares that may be issued by the Company upon the exercise of options is limited by the Plan to 2,920,000. The options, which have a seven year life, are vested at 20% of the number of shares granted under option in each year subsequent to the grant date. The exercise price of each option is fixed at prevailing market prices of the common shares at the date the option is granted.

A reconciliation of the changes in stock options outstanding during the years ended December 31, 2002 and 2001, and the balance of options exercisable at those dates, is presented below:

	2002		2001	
Stock Options	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	1,281,500	$ 14.06	2,047,100	$ 10.89
Granted	278,200	21.27	252,000	16.08
Exercised or surrendered for cash	(166,600)	8.85	(1,016,600)	8.14
Forfeited	(17,900)	18.30	(1,000)	16.08
Outstanding at end of year	1,375,200	$ 16.09	1,281,500	$ 14.06
Options exercisable at end of year	621,600		503,400	

Additional detail of the options outstanding and exercisable at December 31, 2002:

Options Outstanding			Options Exercisable	
Number Outstanding at December 31, 2002	Weighted-Average Remaining Life in Years	Exercise Price	Number Exercisable at December 31, 2002	Exercise Price
36,000	0.1	$ 7.44	36,000	$ 7.44
162,400	1.1	13.35	162,400	13.35
8,000	1.3	13.47	8,000	13.47
213,900	3.1	14.17	121,940	14.17
249,400	4.1	14.57	97,360	14.57
246,500	5.1	16.08	48,580	16.08
173,800	2.1	16.53	134,520	16.53
269,200	6.1	21.27	–	21.27
16,000	2.3	22.44	12,800	22.44
1,375,200	4.0	$ 16.09	621,600	$ 14.45

Basic and diluted earnings per share

2002	Net Earnings ($ thousands)	Weighted-Average Shares	Per Share Amount
Basic earnings per share			
Income available to common shareholders	$ 41,375	32,127,460	$ 1.29
Diluted earnings per share			
Dilutive effect of stock option conversions		315,695	
Income available after conversion	$ 41,375	32,443,155	$ 1.28

2001	Net Earnings ($ thousands)	Weighted-Average Shares	Per Share Amount
Basic earnings per share			
Income available to common shareholders	$ 43,700	30,694,517	$ 1.42
Diluted earnings per share			
Dilutive effect of stock option conversions		359,473	
Income available after conversion	$ 43,700	31,053,990	$ 1.41

9. Stock-based compensation

Had compensation cost for the Company's Executive Stock Option Plan been determined using the fair value method of accounting for options granted subsequent to January 1, 2002, net earnings and earnings per share would have been reduced to the pro forma amounts indicated below:

$ thousands, except share amounts		2002
Net earnings	As reported	$ 41,375
	Pro-forma	$ 40,457
Basic earnings per share	As reported	$ 1.29
	Pro-forma	$ 1.26
Diluted earnings per share	As reported	$ 1.28
	Pro-forma	$ 1.25

The fair value of the options at the date of grant was estimated at $2.2 million using the Black-Scholes option pricing model based on the following assumptions for 2002: 278,200 options granted at $21.27; risk-free interest rate of 4.6 percent; dividend yield of 1.7 percent; expected life of 5.1 years; and volatility of 36 percent.

10. Income taxes

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future income tax assets and liabilities are as follows:

$ thousands	2002	2001
Current future income tax assets		
Accrued liabilities	$ 9,900	$ 10,618
Deferred revenue	4,653	4,834
Inventories	(3,392)	(5,334)
Current future income tax assets	$ 11,161	$ 10,118
Non-current future income tax liabilities		
Capital assets	$ 7,328	$ 6,255
Other	(2,181)	(3,354)
Non-current future income tax liabilities	$ 5,147	$ 2,901

The effective income tax rate on earnings is influenced from year to year by the geographic and business mix of consolidated earnings.

A reconciliation of income taxes calculated using a combined Canadian federal and provincial tax rate with the income tax provision in the consolidated financial statements follows:

$ thousands	2002	2001
Income taxes at Canadian rate	$ 26,143	$ 30,077
Difference between Canadian rate and rates applicable to U.S. subsidiaries	(33)	(217)
Reduction of Canadian taxes applicable to manufacturing profits	(523)	(631)
Large corporation tax	(131)	784
Non-taxable gains	(129)	(2,887)
Other	991	1,216
Provision for income taxes	26,318	28,342
Current income taxes	25,309	24,085
Future income taxes	$ 1,009	$ 4,257

11. Commitments

Certain land, buildings and equipment are leased under several non-cancellable operating leases which require minimum annual payments as follows:

$ thousands	
2003	$ 5,523
2004	4,158
2005	3,210
2006	2,157
2007	1,582
2008 and subsequent years	4,146

12. Employee future benefits

The Company sponsors pension arrangements for substantially all of its employees, primarily through defined contribution plans in Canada and a 401(k) matched savings plan in the United States. Certain of the Company's unionized employees do not participate in Company-sponsored plans, and the Company contributes to these union-sponsored plans in accordance with respective collective bargaining agreements. In the case of the defined contribution plans, the Company makes regular contributions to the employees' individual accounts, which are administered by a plan trustee, in accordance with the plan document.

Approximately 11% of participating employees, consisting principally of Powell personnel, are included in defined benefit plans. Pension obligations under the defined benefit plans are determined periodically by independent actuaries and are accounted for using the accrued benefit method using a measurement date of December 31. The defined benefit plans include a non-contributory pension arrangement for certain senior executives, which includes a supplementary retirement plan that accommodates the portion of the benefit obligation in excess of that funded under the registered plan.

The pension expense is detailed as follows:

$ thousands	2002	2001
Defined benefit plans:		
Service cost	$ 1,182	$ 885
Interest cost	2,864	1,686
Expected return on plan assets	(2,441)	(1,301)
	1,605	1,270
Defined contribution plans	2,863	3,050
401(k) matched savings plan	403	412
Total pension expense	$ 4,871	$ 4,732

Information on the defined benefit plans is as follows:

$ thousands	2002	2001
Accrued benefit obligations:		
Balance at beginning of year	$ 41,790	$ 8,241
Powell benefit obligation at the date of acquisition	–	31,356
Service cost	1,738	1,235
Interest cost	2,864	1,686
Actuarial loss	690	754
Benefits paid	(2,176)	(1,482)
Benefit obligations at end of year	$ 44,906	$ 41,790
Plan assets:		
Fair value of plan assets at beginning of year	$ 34,853	$ 3,094
Powell plan assets at the date of acquisition	–	31,594
Actual return on plan assets	(82)	834
Company contribution	1,877	462
Participant contribution	556	351
Benefits paid	(2,176)	(1,482)
Fair value of plan assets at end of year	$ 35,028	$ 34,853
Funded status of the plans	$ (9,878)	$ (6,937)
Unrecognized actuarial loss	4,703	1,490
Accrued net pension liability	$ (5,175)	$ (5,447)

The accrued net pension liability of $5.2 million includes a $1.4 million prepaid pension asset related to the Powell Plan. It also includes a $6.6 million liability related to the defined benefit plan for senior executives. The cost of this plan is expensed by the Company with cash funding limited to the maximum amount according to pension regulations. The liability of $6.6 million includes the supplementary portion of the liability that exists outside of the registered plan.

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows:

	2002	2001
Discount rate	6.50%	6.75%
Expected long-term rate of return on plan assets	7.00%	7.50%
Rate of compensation increase	4.00%	4.00%

13. Segmented financial information

The Company operates in Canada and the United States and in two reportable operating segments. The Equipment Group sells and services heavy equipment and also provides a range of rental equipment and contractors' supplies for all facets of construction activities. The Compression Group, formerly referred to as the Refrigeration Group and including the same components, encompasses the supply of industrial, natural gas and process compression systems and service for a broad range of applications. The service operations of both segments include distribution of related parts.

Operating segments

$ thousands	Equipment Group 2002	Equipment Group 2001	Compression Group 2002	Compression Group 2001	Total 2002	Total 2001
Revenues	$ 759,665	$ 626,889	$ 317,265	$ 284,116	$1,076,930	$ 911,005
Operating income	46,907	41,170	27,922	23,959	74,829	65,129
Interest expense					11,366	11,962
Interest and investment income					(4,230)	(18,875)
Income taxes					26,318	28,342
Net earnings					$ 41,375	$ 43,700
Identifiable assets	$ 573,382	$ 559,431	$ 155,053	$ 117,952	$ 728,435	$ 677,383
Corporate assets					43,467	43,319
Total assets					$ 771,902	$ 720,702
Capital expenditures	$ 33,571	$ 66,333	$ 24,109	$ 11,061	$ 57,680	$ 77,394
Depreciation	$ 32,771	$ 31,405	$ 3,881	$ 2,964	$ 36,652	$ 34,369

Revenues from Canadian operations were $978,447,000 in 2002 (2001 – $826,245,000), of which export revenues in 2002 were $69,292,000 (2001 – $40,498,000). Property, plant and equipment, rental equipment and power generation assets in the Canadian operations totalled $249,150,000 at December 31, 2002 (2001 – $243,318,000). U.S. operations contributed revenues of $98,483,000 in 2002 (2001 – $84,760,000) including export revenues of $13,950,000 in 2002 (2001 – $10,908,000). Property, plant and equipment in the U.S. operations totalled $9,614,000 in 2002 (2001 – $8,786,000). Goodwill relates to the Equipment Group operations which are all in Canada.

14. Economic relationship

The Company, through its Caterpillar dealerships, sells and services heavy equipment and related parts. Distribution agreements are maintained with several equipment manufacturers, of which the most significant are with subsidiaries of Caterpillar Inc. The distribution and servicing of Caterpillar products account for the major portion of the dealerships' operations.

15. Subsequent events

The Company completed the purchase of 100% of the shares of Energy Industries Inc. for a total cash consideration of $60 million. Results of Energy Industries Inc. will be included in the consolidated financial statements of the Company effective January 1, 2003.

The Company completed the purchase of the land and buildings of the Caterpillar dealership in Concord, Ontario for cash consideration of $12.6 million.

16. Comparative amounts

Certain comparative numbers have been reclassified to conform to the presentation in the current year.

Summary of quarterly data

Thousands, except share data

2002	Q1	Q2	Q3	Q4	Year
Revenues	$ 192,937	$ 287,612	$ 271,792	$ 324,589	$ 1,076,930
Net earnings	2,256	11,199	8,713	19,207	41,375
Basic earnings per share	0.07	0.35	0.27	0.60	1.29

2001	Q1	Q2	Q3	Q4	Year
Revenues	$ 171,436	$ 225,261	$ 228,363	$ 285,945	$ 911,005
Net earnings	5,241	13,801	7,782	16,876	43,700
Basic earnings per share	0.18	0.47	0.24	0.53	1.42

Ten year financial review

	2002	2001[1]	2000
Operating results			
$ thousands			
Revenues	1,076,930	911,005	800,464
Net earnings from continuing operations	41,375	43,700	32,345
Unusual items	–	–	–
Net earnings	41,375	43,700	32,345
Net interest (income) expense	7,136	(6,913)	3,797
Depreciation	36,652	34,369	26,900
Capital expenditures	57,681	77,394	57,968
Dividends declared	11,541	10,646	9,257
Financial position			
$ thousands			
Working capital	213,222	218,132	165,098
Capital assets	258,764	252,104	206,526
Total assets	771,902	720,702	613,787
Long-term debt	156,479	171,970	157,187
Shareholders' equity	335,316	314,248	218,213
Financial ratios			
Working capital	1.8:1	2.0:1	1.7:1
Return on opening shareholders' equity (%)	13.2	17.1	15.9
Long-term debt to shareholders' equity	.4:1	.5:1	.7:1
Per share data ($)			
Earnings from continuing operations	1.29	1.42	1.12
Unusual items	–	–	–
Net earnings	1.29	1.42	1.12
Dividends declared	0.36	0.34	0.32
Equity	10.57	9.79	7.53
Shares outstanding at year end	31,727,573	32,097,473	28,975,698
Price range			
High	26.50	26.20	20.75
Low	18.50	15.25	13.80
Close	20.65	20.47	17.50

Notes

(1) Includes the results of Powell Equipment Limited from July 1, 2001.

(2) Includes the results of the Newfoundland and Labrador Caterpillar Dealership from November 1, 1996.

(3) Includes the results of the Ontario Caterpillar Dealership from August 1, 1993, 51% of Enerflex Systems Ltd. to September 21, 1993 and 30% of earnings for the remainder of 1993.

	1999	1998	1997	1996[2]	1995	1994	1993[3]
	723,937	683,482	684,716	542,477	496,648	416,489	279,050
	32,057	28,242	25,674	21,905	19,521	17,336	6,460
	–	9,946	35,159	–	–	–	1,302
	32,057	38,188	60,833	21,905	19,521	17,336	7,762
	(1,774)	1,910	2,424	5,213	3,061	3,651	3,396
	15,898	14,900	11,667	10,327	6,772	6,334	4,867
	52,146	36,307	29,627	20,632	9,373	22,004	5,303
	8,213	7,650	5,859	4,382	3,757	2,312	1,680
	183,922	144,109	138,458	96,294	71,001	63,660	63,401
	138,499	106,628	84,831	68,132	34,179	31,772	16,960
	531,201	442,972	434,341	318,287	262,616	211,531	146,585
	120,000	60,000	60,000	60,806	41,240	42,625	40,000
	203,062	183,596	155,821	100,305	79,680	64,460	48,909
	1.9:1	1.8:1	1.7:1	1.6:1	1.5:1	1.6:1	2.2:1
	17.5	24.5	60.6	27.5	30.3	35.4	23.5
	.6:1	.3:1	.4:1	.6:1	.5:1	.7:1	.8:1
	1.09	0.96	0.88	0.75	0.68	0.60	0.25
	–	0.34	1.20	–	–	–	0.05
	1.09	1.30	2.08	0.75	0.68	0.60	0.30
	0.28	0.26	0.20	0.15	0.13	0.08	0.07
	6.93	6.23	5.30	3.43	2.76	2.23	1.69
	29,288,098	29,458,210	29,398,868	29,268,268	28,878,168	28,900,168	28,900,168
	19.90	23.00	18.40	13.63	8.63	6.69	4.30
	13.75	14.25	12.68	7.13	5.56	4.10	1.97
	16.25	15.75	16.50	13.38	7.38	6.69	4.19

Board of Directors

1 to 5

6 to 9

1 **Robert M. Franklin** ■●▲
Chairman, Placer Dome Inc., Toronto, Ontario

Mr. Franklin has served on the Board of Toromont since 1994. He is also Chairman of the Board and a director of Placer Dome Inc. and serves on the Board of Directors of ELI Eco Logic Inc. and Call-Net Enterprise Inc.

2 **Ronald G. Gage, FCA** ■
Corporate Director, Toronto, Ontario
Chairman, Corporate Governance Committee

A director of Toromont since 2000, Mr. Gage is a Fellow of The Institute of Chartered Accountants of Ontario, a former Chairman and Chief Executive officer of Ernst & Young LLP Canada, and a director of AIM Canada Fund Inc., AIM Global Fund Inc. and RTO Enterprises Inc.

3 **David A. Galloway** ■
Toronto, Ontario

Mr. Galloway joined the Board of Toromont in August 2002 after retiring as President and Chief Executive Officer of Torstar Corporation earlier that year. He is Chairman of the Board of Trustees for the Hospital for Sick Children and a director of Bank of Montreal, Bankmont Financial Corp., E.W. Scripps Company and Corel Corporation.

4 **Wayne S. Hill** ◆
Executive Vice President and Chief Financial Officer
Toromont Industries Ltd., Toronto, Ontario

Mr. Hill joined Toromont in 1985 as Vice President Finance and Chief Financial Officer and has been a director of the Company since 1988. He was appointed Executive Vice President and Chief Financial Officer of the Company in February 2002.

5 **H. Stanley Marshall** ■▲
President and Chief Executive Officer
Fortis Inc., Topsail, Newfoundland

Mr. Marshall has served on the Board of Toromont since 1998. He is President and Chief Executive Officer and a director of Fortis Inc., an international electric utility holding company, and is also a director of the Conference Board of Canada.

6 **John S. McCallum** ■●
Professor, Faculty of Management
University of Manitoba, Winnipeg, Manitoba
Chairman, Audit Committee

Mr. McCallum has served on the Board of Toromont since 1985 and is a Professor of Finance in the Faculty of Management at the University of Manitoba. He is also a director of Fortis Inc., Investors Group Inc., Investor Syndicate Ltd., Wawanesa Mutual Insurance Company, Wawanesa General Insurance Company and Wawanesa Life Insurance Company.

7 **Robert M. Ogilvie** ◆
Executive Chairman, Toromont Industries Ltd.
Caledon East, Ontario

Mr. Ogilvie joined the Company as President in 1985 and has been a director of the Company since 1986. Having been Chairman and Chief Executive Officer of Toromont since 1987, he was appointed Executive Chairman of the Board effective January 1, 2002.

8 **Hugo T. Sørensen** ◆
President and Chief Executive Officer
Toromont Industries Ltd., Caledon East, Ontario

Mr. Sørensen joined the Company as President in March 1997 and has been a director since 1998. He became President and Chief Executive Officer of the Company effective January 1, 2002.

9 **Ronald G. Willox** ■●▲
Toronto, Ontario
Lead Director
Chairman, Human Resources and Compensation Committee

Mr. Willox has been a director since 1987 and has been very active in assisting senior management over the past 15 years. Having reached the mandatory retirement age, Mr. Willox will not be standing for re-election at this year's Annual Meeting.

■ Member of Corporate Governance Committee
● Member of Audit Committee
▲ Member of Human Resources and Compensation Committee
◆ Officers of the Corporation

Corporate information

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L.W. Moffatt
Vice President, General Manager

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General Manager

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D.F. Duncan
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D.F. Duncan
President

Energy Industries Inc.
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I. Heidecker
General Manager

Annual and Special Meeting

The Annual and Special Meeting of the Shareholders of Toromont Industries Ltd. will be held at 10:00 a.m. on Wednesday, April 16, 2003 in the Auditorium, Toronto Stock Exchange Conference Centre The Exchange Tower 130 King Street West Toronto, Ontario

How to get in touch with us

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How to reach our transfer agent and registrar

Investors are encouraged to contact CIBC Mellon Trust for information regarding their security holdings. They can be reached at:

CIBC Mellon Trust
320 Bay Street
Toronto, Ontario M5H 4A6
Answer line: 416 643 5500 or
Toll-free North America: 1 800 387 0825
E-mail: inquiries@cibcmellon.com
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Common shares

Listed on The Toronto Stock Exchange
Stock Symbol – TIH

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